

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Tekonsha	County Calhoun
Audit Date February 29, 2004	Opinion Date March 25, 2004	Date Accountant Report Submitted to State: March 25, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

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		Zip 48707	
Accountant Signature Campbell, Kusterer & Co., P.C.			

VILLAGE OF TEKONSHA
Calhoun County, Michigan

RECEIVED
~~GENERAL PURPOSE~~ FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
✓ APR - 2 2004
Year Ended February 29, 2004

VILLAGE OF TEKONSHA
Calhoun County, Michigan

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INDEPENDENT AUDITOR'S REPORT

March 25, 2004

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

We have audited the accompanying general purpose financial statements of the Village of Tekonsha, Calhoun County, Michigan, as of February 29, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village of Tekonsha's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Tekonsha, Calhoun County, Michigan, as of February 29, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2004, on our consideration of the Village of Tekonsha's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Village of Tekonsha, Calhoun County, Michigan, taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Village of

To the Village Council
Village of Tekonsha
Calhoun County, Michigan
March 25, 2004
Page 2

Tekonsha, Calhoun County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS EXHIBIT A
February 29, 2004 Page 1

<u>Assets</u>	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Cash in bank	4 996 63	98 578 44	-
Petty cash	50 00	-	-
Accounts receivable	10 150 00	34 671 50	-
Taxes receivable	21 113 97	-	-
Due from State of Michigan	12 080 00	15 140 33	-
Due from other funds	111 088 48	42 786 63	144 593 93
Cash in bank - restricted	-	-	-
Land and land improvements	-	-	-
Buildings	-	-	-
Equipment	-	-	-
Water system	-	-	-
Sewer system	-	-	-
Accumulated depreciation	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-
Total Assets	<u>159 479 08</u>	<u>191 176 90</u>	<u>144 593 93</u>

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Types		Account Groups		Total
Enterprise	Internal Service	General Fixed Assets	General – Long Term Debt	(Memorandum Only)
134 334 32	687 51	-	-	238 596 90
-	-	-	-	50 00
23 798 52	-	-	-	68 620 02
-	-	-	-	21 113 97
-	-	-	-	27 220 33
120 051 13	20 083 11	-	-	438 603 28
70 279 63	-	-	-	70 279 63
-	-	156 701 85	-	156 701 85
-	-	281 699 70	-	281 699 70
-	142 771 22	254 360 91	-	397 132 13
3 119 367 02	-	-	-	3 119 367 02
3 008 915 85	-	-	-	3 008 915 85
(1 406 706 93)	(74 710 57)	-	-	(1 481 417 50)
-	-	-	470 902 17	470 902 17
<u>5 070 039 54</u>	<u>88 831 27</u>	<u>692 762 46</u>	<u>470 902 17</u>	<u>6 817 785 35</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS EXHIBIT A
February 29, 2004 Page 2

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	4 755 27	124 78	-
Due to other funds	154 421 53	47 277 82	143 700 00
Notes payable	-	-	-
Bonds payable	-	-	-
Total liabilities	<u>159 176 80</u>	<u>47 402 60</u>	<u>143 700 00</u>
Fund equity:			
Investment in general fixed assets	-	-	-
Contributed capital	-	-	-
Retained earnings:			
Reserved	-	-	-
Unreserved	-	-	-
Fund balances:			
Unreserved:			
Undesignated	302 28	143 774 30	893 93
Total fund equity	<u>302 28</u>	<u>143 774 30</u>	<u>893 93</u>
Total Liabilities and Fund Equity	<u>159 479 08</u>	<u>191 176 90</u>	<u>144 593 93</u>

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Types		Account Groups		Total
Enterprise	Internal Service	General Fixed Assets	General – Long Term Debt	(Memorandum Only)
2 274 42	44 78	-	-	7 199 25
68 098 64	25 105 29	-	-	438 603 28
-	23 284 00	-	470 902 17	494 186 17
2 026 000 00	-	-	-	2 026 000 00
2 096 373 06	48 434 07	-	470 902 17	2 965 988 70
-	-	692 762 46	-	692 762 46
2 455 103 08	-	-	-	2 455 103 08
70 279 63	-	-	-	70 279 63
448 283 77	40 397 20	-	-	488 680 97
-	-	-	-	144 970 51
2 973 666 48	40 397 20	692 762 46	-	3 851 796 65
5 070 039 54	88 831 27	692 762 46	470 902 17	6 817 785 35

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended February 29, 2004

EXHIBIT B

Page 1

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Revenues:			
Property taxes	154 335 87	-	-
Licenses and permits	775 00	-	-
State revenue sharing	72 910 10	83 009 12	-
Charges for services	4 904 12	121 294 62	-
Interest	60 12	2 269 37	-
Special assessments	310 00	-	-
Miscellaneous	24 032 34	-	-
Total revenues	257 327 55	206 573 11	-
Expenditures:			
Legislative:			
Village Council	14 246 71	-	-
General government:			
Elections	3 15	-	-
Accounting	14 207 33	-	-
Clerk	22 321 10	-	-
Treasurer	2 229 52	-	-
Building and grounds	47 949 42	-	-
Public safety:			
Fire protection	24 826 27	86 172 96	-
Police protection	34 823 04	-	-
Ambulance	2 700 00	-	-
Planning and zoning	703 83	3 621 28	-
Public works:			
Public works	39 119 39	-	-
Construction	-	20 396 59	-
Routine maintenance	-	49 599 12	-
Winter maintenance	-	15 413 88	-
Traffic services	-	2 029 36	-
Forestry	2 914 52	-	-
Mosquito control	1 905 42	-	-
Street lighting	16 855 85	-	-
Culture and recreation:			
Parks	9 538 48	-	-

The accompanying notes are an integral part of these financial statements.

Total
(Memorandum
Only)

154 335 87

775 00

155 919 22

126 198 74

2 329 49

310 00

24 032 34

463 900 66

14 246 71

3 15

14 207 33

22 321 10

2 229 52

47 949 42

110 999 23

34 823 04

2 700 00

4 325 11

39 119 39

20 396 59

49 599 12

15 413 88

2 029 36

2 914 52

1 905 42

16 855 85

9 538 48

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended February 29, 2004

EXHIBIT B

Page 2

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Expenditures: (continued)			
Capital outlay	-	10 000 00	-
Debt service	<u>30 990 00</u>	<u>14 204 65</u>	<u>-</u>
Total expenditures	<u>265 334 03</u>	<u>201 437 84</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(8 006 48)</u>	<u>5 135 27</u>	<u>-</u>
Other financing sources (uses):			
Operating transfers in	3 000 00	5 350 00	-
Operating transfers out	<u>(350 00)</u>	<u>(8 000 00)</u>	<u>-</u>
Total other financing sources (uses)	<u>2 650 00</u>	<u>(2 650 00)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other (uses)	<u>(5 356 48)</u>	<u>2 485 27</u>	<u>-</u>
Fund balances, March 1	<u>5 658 76</u>	<u>141 289 03</u>	<u>893 93</u>
Fund Balances, February 29	<u><u>302 28</u></u>	<u><u>143 774 30</u></u>	<u><u>893 93</u></u>

The accompanying notes are an integral part of these financial statements.

Total
(Memorandum
Only)

10 000 00

45 194 65

466 771 87

(2 871 21)

8 350 00

(8 350 00)

-

(2 871 21)

147 841 72

144 970 51

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS

Year Ended February 29, 2004

EXHIBIT C
Page 1

	General Fund		
	Budget	Actual	Over (Under) Budget
Revenues:			
Property taxes	146 530 00	154 335 87	7 805 87
Licenses and permits	40 00	775 00	735 00
State revenue sharing	75 000 00	72 910 10	(2 089 90)
Charges for services	4 280 00	4 904 12	624 12
Interest	130 00	60 12	(69 88)
Special assessments	500 00	310 00	(190 00)
Miscellaneous	37 095 00	24 032 34	(13 062 66)
Total revenues	263 575 00	257 327 55	(6 247 45)
Expenditures:			
Legislative:			
Village Council	14 320 00	14 246 71	(73 29)
General government:			
Elections	50 00	3 15	(46 85)
Accounting	14 250 00	14 207 33	(42 67)
Clerk	22 360 00	22 321 10	(38 90)
Treasurer	2 260 00	2 229 52	(30 48)
Building and grounds	48 400 00	47 949 42	(450 58)
Public safety:			
Fire protection	24 840 00	24 826 27	(13 73)
Police protection	34 850 00	34 823 04	(26 96)
Ambulance	2 450 00	2 700 00	250 00
Planning and zoning	705 00	703 83	(1 17)
Public works:			
Public works	39 120 00	39 119 39	(61)
Construction	-	-	-
Routine maintenance	-	-	-
Winter maintenance	-	-	-
Traffic services	-	-	-
Forestry	3 060 00	2 914 52	(145 48)
Mosquito control	1 940 00	1 905 42	(34 58)
Street lighting	16 900 00	16 855 85	(44 15)

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds

<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
-	-	-
-	-	-
75 140 00	83 009 12	7 869 12
111 410 00	121 294 62	9 884 62
675 00	2 269 37	1 594 37
-	-	-
-	-	-
<u>187 225 00</u>	<u>206 573 11</u>	<u>19 348 11</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
87 775 00	86 172 96	(1 602 04)
-	-	-
-	-	-
3 640 00	3 621 28	(18 72)
-	-	-
20 970 00	20 396 59	(573 41)
51 160 00	49 599 12	(1 560 88)
16 620 00	15 413 88	(1 206 12)
2 240 00	2 029 36	(210 64)
-	-	-
-	-	-
-	-	-

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS
Year Ended February 29, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Expenditures: (continued)			
Culture and recreation:			
Parks	9 620 00	9 538 48	(81 52)
Capital outlay	-	-	-
Debt service	<u>30 600 00</u>	<u>30 990 00</u>	<u>390 00</u>
Total expenditures	<u>265 725 00</u>	<u>265 334 03</u>	<u>(390 97)</u>
Excess (deficiency) of revenues over expenditures	<u>(2 150 00)</u>	<u>(8 006 48)</u>	<u>(5 856 48)</u>
Other financing sources (uses):			
Operating transfers in	3 000 00	3 000 00	-
Operating transfers out	<u>(350 00)</u>	<u>(350 00)</u>	<u>-</u>
Total other financing sources (uses)	<u>2 650 00</u>	<u>2 650 00</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	500 00	(5 356 48)	(5 856 48)
Fund balances, March 1	<u>6 780 00</u>	<u>5 658 76</u>	<u>(1 121 24)</u>
Fund Balances, February 29	<u><u>7 280 00</u></u>	<u><u>302 28</u></u>	<u><u>(6 977 72)</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Funds</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
-	-	-
10 000 00	10 000 00	-
<u>15 000 00</u>	<u>14 204 65</u>	<u>(795 35)</u>
<u>207 405 00</u>	<u>201 437 84</u>	<u>(5 967 16)</u>
<u>(20 180 00)</u>	<u>5 135 27</u>	<u>25 315 27</u>
5 350 00	5 350 00	-
<u>(8 000 00)</u>	<u>(8 000 00)</u>	<u>-</u>
<u>(2 650 00)</u>	<u>(2 650 00)</u>	<u>-</u>
(22 830 00)	2 485 27	25 315 27
<u>43 170 00</u>	<u>141 289 03</u>	<u>98 119 03</u>
<u>20 340 00</u>	<u>143 774 30</u>	<u>123 434 30</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS – ALL PROPRIETARY FUND TYPES

EXHIBIT D

Year Ended February 29, 2004

	<u>Proprietary Funds</u>		<u>Total</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>(Memorandum Only)</u>
Operating revenues:			
Charges for services	272 572 78	39 240 54	311 813 32
Miscellaneous	6 488 55	-	6 488 55
Total operating revenues	<u>279 061 33</u>	<u>39 240 54</u>	<u>318 301 87</u>
Less operating expenses:			
Wages	69 119 01	4 622 86	73 741 87
Benefits	12 590 69	349 59	12 940 28
Supplies	11 399 44	9 017 22	20 416 66
Professional services	22 556 08	705 20	23 261 28
Insurance	9 691 87	3 227 83	12 919 70
Utilities	24 354 52	6 021 59	30 376 11
Equipment rental	18 528 95	-	18 528 95
Repairs and maintenance	3 063 10	13 885 80	16 948 90
Miscellaneous	1 147 85	15 00	1 162 85
Total operating expenses before depreciation	<u>172 451 51</u>	<u>37 845 09</u>	<u>210 296 60</u>
Operating income (loss) before depreciation	106 609 82	1 395 45	108 005 27
Less: depreciation	<u>(138 226 73)</u>	<u>(16 077 36)</u>	<u>(154 304 09)</u>
Operating income (loss)	<u>(31 616 91)</u>	<u>(14 681 91)</u>	<u>(46 298 82)</u>
Other income and (expense):			
Interest income	1 979 42	18 30	1 997 72
Amortization of contributed capital	60 953 87	-	60 953 87
Interest expense	<u>(66 202 50)</u>	<u>(1 612 77)</u>	<u>(67 815 27)</u>
Net other income and (expense)	<u>(3 269 21)</u>	<u>(1 594 47)</u>	<u>(4 863 68)</u>
Net income (loss)	<u>(34 886 12)</u>	<u>(16 276 38)</u>	<u>(51 162 50)</u>
Retained earnings, March 1	<u>553 449 52</u>	<u>56 673 58</u>	<u>610 123 10</u>
Retained Earnings, February 29	<u>518 563 40</u>	<u>40 397 20</u>	<u>558 960 60</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUND TYPES EXHIBIT E
Year Ended February 29, 2004 Page 1

	<u>Proprietary Funds</u>		<u>Total</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>(Memorandum Only)</u>
Cash flows from operating activities:			
Cash received from customers	277 027 33	39 240 54	316 267 87
Cash payments to suppliers for goods and services	(120 950 60)	(33 226 36)	(154 176 96)
Cash payments to employees for services	(69 119 01)	(4 622 86)	(73 741 87)
Other operating revenues	<u>6 488 55</u>	<u>-</u>	<u>6 488 55</u>
Net cash provided (used) for operating activities	<u>93 446 27</u>	<u>1 391 32</u>	<u>94 837 59</u>
Cash flows from noncapital and related financing activities:			
Net borrowings (repayments) with other funds	<u>(22 366 90)</u>	<u>6 127 79</u>	<u>(16 239 11)</u>
Net cash provided (used) for noncapital and related financing activities	<u>(22 366 90)</u>	<u>6 127 79</u>	<u>(16 239 11)</u>
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(21 930 00)	(9 900 00)	(31 830 00)
Payments of principal on long-term debt	(22 000 00)	(9 815 67)	(31 815 67)
Payments of interest on long-term debt	<u>(66 202 50)</u>	<u>(1 612 77)</u>	<u>(67 815 27)</u>
Net cash provided (used) for capital and related financing activities	<u>(110 132 50)</u>	<u>(21 328 44)</u>	<u>(131 460 94)</u>
Cash flows from investing activities:			
Interest income	<u>1 979 42</u>	<u>18 30</u>	<u>1 997 72</u>
Net cash provided (used) for investing activities	<u>1 979 42</u>	<u>18 30</u>	<u>1 997 72</u>
Net increase (decrease) in cash and cash equivalents	(37 073 71)	(13 791 03)	(50 864 74)
Cash and cash equivalents, March 1	<u>241 687 66</u>	<u>14 478 54</u>	<u>256 166 20</u>
Cash and Cash Equivalents, February 29	<u>204 613 95</u>	<u>687 51</u>	<u>205 301 46</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUND TYPES EXHIBIT E
Year Ended February 29, 2004 Page 2

	<u>Proprietary Funds</u>		<u>Total</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>(Memorandum Only)</u>
Reconciliation of operating income to net cash provided (used) for operating activities:			
Operating income (loss)	(31 616 91)	(14 681 91)	(46 298 82)
Depreciation	138 226 73	16 077 36	154 304 09
Increase (decrease) in assets and liabilities:			
Accounts receivable	4 454 55	-	4 454 55
Accounts payable	(17 618 10)	(4 13)	(17 622 23)
Net Cash Provided (Used) for Operating Activities	<u>93 446 27</u>	<u>1 391 32</u>	<u>94 837 59</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Village of Tekonsha, Calhoun County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Village contain all the Village funds and account groups that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Tekonsha. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Fund

This fund is used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations.

Proprietary Funds

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 29, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Enterprise Funds

The Enterprise Funds report operations that provide services which are financed primarily by users charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Internal Service Fund

The Equipment Fund is used to record the financing of goods or services provided by the local unit to the other departments and funds or to other governmental units on a cost reimbursements basis.

Account Groups

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations (nonproprietary fixed assets).

General Long-Term Debt Account Group

This account group presents the general long-term debt of the local unit.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 29, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting (continued)

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual.

Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present revenues and expenses in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 before they are added to the county tax rolls. The Village 2003 tax roll millage rate was 11.000 mills, and the taxable value was \$11,411,725.00.

Fixed Assets and Depreciation

Fixed assets in the Water, Sewer, and Internal Service Funds are depreciated using the straight-line method over the estimated useful lives of the assets. Additions, improvements, and major replacements are capitalized at cost. Maintenance, repairs and minor replacements are charged to expense as incurred.

Purchases of fixed assets for all other funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles. No depreciation has been provided on the general fixed assets.

Investments

Investments are stated at market.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amounts would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Village provides no postemployment benefits to past employees.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated two banks for the deposit of Village funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>308 876 53</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 2 – Deposits and Investments

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	220 571 70
Uninsured and Uncollateralized	<u>104 728 81</u>
Total Deposits	<u><u>325 300 51</u></u>

The Village of Tekonsha did not have any investments as of February 29, 2004.

Note 3 – Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 3/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2/29/04</u>
Land and land improvements	156 701 85	-	-	156 701 85
Buildings	281 699 70	-	-	281 699 70
Equipment	<u>244 360 91</u>	<u>10 000 00</u>	<u>-</u>	<u>254 360 91</u>
Totals	<u><u>682 762 46</u></u>	<u><u>10 000 00</u></u>	<u><u>-</u></u>	<u><u>692 762 46</u></u>

A summary of proprietary fund type property, plant and equipment at February 29, 2004, follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Internal Service Fund</u>
Fixed assets	3 119 367 02	3 008 915 85	142 771 22
Less accumulated depreciation	<u>(675 118 66)</u>	<u>(731 588 37)</u>	<u>(74 710 57)</u>
Net Carrying Amount	<u><u>2 444 248 36</u></u>	<u><u>2 277 327 48</u></u>	<u><u>68 060 65</u></u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS

February 29, 2004

Note 4 - Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Local Street	22 259 03	Major Street	9 259 03
		Industrial Park	13 000 00
	<u>22 259 03</u>		<u>22 259 03</u>
Major Street	18 556 15	General	7 856 15
		Industrial Park	10 700 00
	<u>18 556 15</u>		<u>18 556 15</u>
General	111 088 48	Building	4 045 81
		Fire	10 016 88
		Major Street	3 213 41
		Sewer	24 834 33
		Local Street	3 822 86
		Water	40 049 90
		Equipment	25 105 29
	<u>111 088 48</u>		<u>111 088 48</u>
Building	<u>1 971 45</u>	General	<u>1 971 45</u>
Industrial Park	<u>144 593 93</u>	General	<u>144 593 93</u>
Equipment	20 083 11	Major Street	5 967 40
		Local Street	10 952 43
		Sewer	1 883 04
		Water	1 280 24
	<u>20 083 11</u>		<u>20 083 11</u>
Water	120 051 13	Industrial Park	120 000 00
		Sewer	51 13
	<u>120 051 13</u>		<u>120 051 13</u>
Total	<u>438 603 28</u>	Total	<u>438 603 28</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 5 – Changes in General Long-Term Debt

A summary of changes in general long-term debt follows:

	<u>Balance</u> <u>3/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>2/29/04</u>
Note Payable – Fire				
Equipment	3 916 99	-	1 528 07	2 388 92
Note Payable – Fire Truck	98 391 14	-	5 484 09	92 907 05
Note Payable – Industrial Park	<u>393 000 00</u>	<u>-</u>	<u>17 393 80</u>	<u>375 606 20</u>
Totals	<u>495 308 13</u>	<u>-</u>	<u>24 405 96</u>	<u>470 902 17</u>

Note 6 – Note Payable – 2000 Pickup Truck

On June 27, 2000, the Village entered into a financing agreement to fund the purchase of a 2000 Ford pickup truck. The agreement requires sixty monthly payments in the amount of \$475.23, including interest at the rate of 7.35% per annum. As of February 29, 2004, the principal balance outstanding was \$7,284.02 and it is recorded in the Equipment Fund.

Note 7 – Note Payable – 2003 Pickup Truck

On February 26, 2003, the Village entered into a financing agreement to fund the purchase of a 2003 Ford pickup truck. The agreement requires payments including interest at the rate of 4.54% per annum. As of February 29, 2004, the principal balance outstanding was \$15,999.98 and it is recorded in the Equipment Fund.

Note 8 – Note Payable – Fire Equipment

On March 8, 2000, the Village entered into a financing agreement to fund the purchase of two Motorola receivers. The agreement requires sixty monthly payments in the amount of \$162.18 including interest at the rate of 10.188% per annum. As of February 29, 2004, the principal balance outstanding was \$2,388.92 and it is recorded in the General Long-Term Debt Group of Accounts.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 9 - Note Payable – Fire Truck

On August 5, 1999, the Village entered into a financing agreement to fund the purchase of a 1999 Chevrolet fire truck. The agreement requires fifteen annual payments in the amount of \$12,420.67, including interest at the rate of 7.05% per annum. The Township of Tekonsha has agreed to pay fifty percent of each payment. As of February 29, 2004, the principal balance outstanding was \$92,907.05 and it is recorded in the General Long-Term Debt Group of Accounts.

Note 10 - Note Payable – Industrial Park

On May 9, 2000, the Village obtained a \$393,000.00 loan from the Michigan Economic Development Corporation to partially fund the construction of an industrial park. The agreement requires quarterly payments of principal and interest at the rate of 5% per annum, beginning May 1, 2003. From March 1, 2000, to February 28, 2005, the Village can earn credits of \$10,000.00 for each qualifying net new job created and added to the existing job base. The maximum credits which may be earned under the agreement cannot exceed fifty percent of the loan principal and interest. Accordingly, a loan repayment schedule has not yet been developed. As of February 29, 2004, the principal balance outstanding was \$375,606.20 and it is recorded in the General Long-Term Debt Group of Accounts.

Note 11 - 1999 Sanitary Sewerage System Revenue Bonds

On October 26, 1999, the Village issued \$2,110,000.00 of 1999 Sanitary Sewerage System Revenue Bonds. The bonds were purchased by the United States Department of Agriculture. The bond proceeds were to be used to partially pay for improvements to the Village's wastewater treatment lagoons. The bonds bear interest at the rate of 3.25% per annum. The bond principal and interest are to be repaid from the revenues of the Sewer Fund. The Village is required to maintain a Bond and Interest Redemption Account with amounts sufficient to make the required principal and interest payments. The Village is also required to maintain a Bond Reserve Account with \$2,875.00 per fiscal quarter, until \$115,000.00 is accumulated. The bond proceeds are recorded as a liability in the Sewer Fund. The principal balance outstanding as of February 29, 2004, was \$2,026,000.00.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 11 - 1999 Sanitary Sewerage System Revenue Bonds (continued)

<u>Due Date</u>	<u>Principal Amount</u>
5-1-04	24 000
5-1-05	24 000
5-1-06	26 000
5-1-07	27 000
5-1-08	28 000
5-1-09	29 000
5-1-10	31 000
5-1-11	32 000
5-1-12	33 000
5-1-13	35 000
5-1-14	36 000
5-1-15	38 000
5-1-16	40 000
5-1-17	42 000
5-1-18	43 000
5-1-19	46 000
5-1-20	47 000
5-1-21	50 000
5-1-22	52 000
5-1-23	54 000
5-1-24	57 000
5-1-25	59 000
5-1-26	62 000
5-1-27	65 000
5-1-28	67 000
5-1-29	71 000
5-1-30	74 000
5-1-31	77 000
5-1-32	81 000
5-1-33	84 000
5-1-34	88 000
5-1-35	92 000

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 11 - 1999 Sanitary Sewerage System Revenue Bonds (continued)

<u>Due Date</u>	<u>Principal Amount</u>
5-1-36	96 000
5-1-37	101 000
5-1-38	105 000
5-1-39	<u>110 000</u>
Total	<u>2 026 000</u>

Note 12 - Budget Variances

Public Act 621 of 1978 requires that a municipality shall not incur expenditures in excess of the amount appropriated. The approved budget of the Village for the General Fund was adopted on an activity level, and amended periodically by the Village Council. During the year ended February 29, 2004, the Village incurred expenditures in certain activities which were in excess of the amounts appropriated.

<u>Fund/Activity</u>	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Ambulance	2 450 00	2 700 00	250 00
Debt service	30 600 00	30 990 00	390 00

Note 13 - Deferred Compensation Plan

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Note 14 - Pension Plan

The Village has a defined contribution pension plan which covers all full-time employees. Pension expense for the year ended February 29, 2004, was \$3,220.00.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 15 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 16 – Segment Information for Enterprise Funds

	<u>Water Fund</u>	<u>Sewer Fund</u>
Net fixed assets	2 444 248 36	2 277 327 48
Contributed capital	2 433 404 08	21 699 00
Retained earnings	137 949 36	380 644 04
Operating revenues	81 399 53	197 661 80
Operating income (loss)	(55 737 23)	24 120 32
Net income (loss)	6 077 17	(40 963 29)
Total assets	2 614 733 29	2 455 306 25
Total liabilities	43 379 85	2 052 993 21

Note 17 – Transfers In and Transfers Out

For the fiscal year ended, February 29, 2004, the Village made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	3 000 00	Major Street	3 000 00
Building	350 00	General	350 00
Local Street	<u>5 000 00</u>	Major Street	<u>5 000 00</u>
Total	<u><u>8 350 00</u></u>	Total	<u><u>8 350 00</u></u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 29, 2004

Note 18 – Building Permits

As of February 29, 2004, the Village had building permit revenues of \$3,329.75 and building permit expenses of \$3,621.28.

Note 19 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINED BALANCE SHEET – ALL SPECIAL REVENUE FUNDS EXHIBIT F
February 29, 2004

	<u>Building</u>	<u>M.V.H. Major Street</u>	<u>M.V.H. Local Street</u>	<u>Fire</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	-	34 180 16	23 316 09	41 082 19	98 578 44
Accounts receivable	2 213 00	-	-	32 458 50	34 671 50
Due from State of Michigan	-	11 798 69	3 341 64	-	15 140 33
Due from other funds	<u>1 971 45</u>	<u>18 556 15</u>	<u>22 259 03</u>	<u>-</u>	<u>42 786 63</u>
Total Assets	<u>4 184 45</u>	<u>64 535 00</u>	<u>48 916 76</u>	<u>73 540 69</u>	<u>191 176 90</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	-	62 39	62 39	-	124 78
Due to other funds	<u>4 045 81</u>	<u>18 439 84</u>	<u>14 775 29</u>	<u>10 016 88</u>	<u>47 277 82</u>
Total liabilities	<u>4 045 81</u>	<u>18 502 23</u>	<u>14 837 68</u>	<u>10 016 88</u>	<u>47 402 60</u>
Fund balances:					
Unreserved:					
Undesignated	<u>138 64</u>	<u>46 032 77</u>	<u>34 079 08</u>	<u>63 523 81</u>	<u>143 774 30</u>
Total fund balances	<u>138 64</u>	<u>46 032 77</u>	<u>34 079 08</u>	<u>63 523 81</u>	<u>143 774 30</u>
Total Liabilities and Fund Balances	<u>4 184 45</u>	<u>64 535 00</u>	<u>48 916 76</u>	<u>73 540 69</u>	<u>191 176 90</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS

EXHIBIT G

Year Ended February 29, 2004

	<u>Building</u>	<u>M.V.H. Major Street</u>	<u>M.V.H. Local Street</u>	<u>Fire</u>	<u>Total</u>
Revenues:					
State revenue sharing	-	64 508 22	18 500 90	-	83 009 12
Charges for services	3 329 75	-	-	117 964 87	121 294 62
Interest	-	174 15	1 552 77	542 45	2 269 37
Total revenues	<u>3 329 75</u>	<u>64 682 37</u>	<u>20 053 67</u>	<u>118 507 32</u>	<u>206 573 11</u>
Expenditures:					
Public safety:					
Fire protection	-	-	-	86 172 96	86 172 96
Planning and zoning	3 621 28	-	-	-	3 621 28
Public works:					
Construction	-	-	20 396 59	-	20 396 59
Routine maintenance	-	31 379 49	18 219 63	-	49 599 12
Winter maintenance	-	9 836 62	5 577 26	-	15 413 88
Traffic services	-	1 485 63	543 73	-	2 029 36
Capital outlay	-	-	-	10 000 00	10 000 00
Debt service	-	-	-	14 204 65	14 204 65
Total expenditures	<u>3 621 28</u>	<u>42 701 74</u>	<u>44 737 21</u>	<u>110 377 61</u>	<u>201 437 84</u>
Excess (deficiency) of revenues over expenditures	<u>(291 53)</u>	<u>21 980 63</u>	<u>(24 683 54)</u>	<u>8 129 71</u>	<u>5 135 27</u>
Other financing sources (uses):					
Operating transfers in	350 00	-	5 000 00	-	5 350 00
Operating transfers out	-	(8 000 00)	-	-	(8 000 00)
Total other financing sources (uses)	<u>350 00</u>	<u>(8 000 00)</u>	<u>5 000 00</u>	<u>-</u>	<u>(2 650 00)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>58 47</u>	<u>13 980 63</u>	<u>(19 683 54)</u>	<u>8 129 71</u>	<u>2 485 27</u>
Fund balances, March 1	<u>80 17</u>	<u>32 052 14</u>	<u>53 762 62</u>	<u>55 394 10</u>	<u>141 289 03</u>
Fund Balances, February 29	<u>138 64</u>	<u>46 032 77</u>	<u>34 079 08</u>	<u>63 523 81</u>	<u>143 774 30</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINING BALANCE SHEET – ALL ENTERPRISE FUNDS EXHIBIT H
February 29, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	42 436 72	91 897 60	134 334 32
Accounts receivable	7 997 08	15 801 44	23 798 52
Due from other funds	120 051 13	-	120 051 13
Cash in bank – restricted	-	70 279 63	70 279 63
Water system	3 119 367 02	-	3 119 367 02
Sewer system	-	3 008 915 85	3 008 915 85
Accumulated depreciation	<u>(675 118 66)</u>	<u>(731 588 27)</u>	<u>(1 406 706 93)</u>
Total Assets	<u>2 614 733 29</u>	<u>2 455 306 25</u>	<u>5 070 039 54</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	2 049 71	224 71	2 274 42
Due to other funds	41 330 14	26 768 50	68 098 64
Bonds payable	-	2 026 000 00	2 026 000 00
Total liabilities	<u>43 379 85</u>	<u>2 052 993 21</u>	<u>2 096 373 06</u>
Fund equity:			
Contributed capital	2 433 404 08	21 699 00	2 455 103 08
Retained earnings:			
Reserved	-	70 279 63	70 279 63
Unreserved	137 949 36	310 334 41	448 283 77
Total fund equity	<u>2 571 353 44</u>	<u>402 313 04</u>	<u>2 973 666 48</u>
Total Liabilities and Fund Equity	<u>2 614 733 29</u>	<u>2 455 306 25</u>	<u>5 070 039 54</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS – ALL ENTERPRISE FUNDS

EXHIBIT I

Year Ended February 29, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	78 980 86	193 591 92	272 572 78
Miscellaneous	2 418 67	4 069 88	6 488 55
Total operating revenues	<u>81 399 53</u>	<u>197 661 80</u>	<u>279 061 33</u>
Less operating expenses:			
Wages	31 483 95	37 635 06	69 119 01
Benefits	6 076 61	6 514 08	12 590 69
Supplies	8 901 90	2 497 54	11 399 44
Professional services	7 348 93	15 207 15	22 556 08
Insurance	4 310 24	5 381 63	9 691 87
Utilities	6 817 35	17 537 17	24 354 52
Equipment rental	7 779 06	10 749 89	18 528 95
Repairs and maintenance	1 265 11	1 797 99	3 063 10
Miscellaneous	793 22	354 63	1 147 85
Total operating expenses before depreciation	<u>74 776 37</u>	<u>97 675 14</u>	<u>172 451 51</u>
Operating income (loss) before depreciation	6 623 16	99 986 66	106 609 82
Less: depreciation	<u>(62 360 39)</u>	<u>(75 866 34)</u>	<u>(138 226 73)</u>
Operating income (loss)	<u>(55 737 23)</u>	<u>24 120 32</u>	<u>(31 616 91)</u>
Other income and (expense):			
Interest income	860 53	1 118 89	1 979 42
Amortization of contributed capital	60 953 87	-	60 953 87
Interest expense	-	(66 202 50)	(66 202 50)
Net other income and (expense)	<u>61 814 40</u>	<u>(65 083 61)</u>	<u>(3 269 21)</u>
Net income (loss)	6 077 17	(40 963 29)	(34 886 12)
Retained earnings, March 1	<u>131 872 19</u>	<u>421 577 33</u>	<u>553 449 52</u>
Retained Earnings, February 29	<u>137 949 36</u>	<u>380 614 04</u>	<u>518 563 40</u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINING STATEMENT OF CASH FLOWS – ALL ENTERPRISE FUNDS EXHIBIT J
Year Ended February 29, 2004 Page 1

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	79 123 88	197 903 45	277 027 33
Cash payments to suppliers for goods and services	(42 839 01)	(78 111 59)	(120 950 60)
Cash payments to employees for services	(31 483 95)	(37 635 06)	(69 119 01)
Other operating revenues	<u>2 418 67</u>	<u>4 069 88</u>	<u>6 488 55</u>
Net cash provided (used) for operating activities	<u>7 219 59</u>	<u>86 226 68</u>	<u>93 446 27</u>
Cash flows from noncapital and related financing activities:			
Net borrowings (repayments) with other funds	<u>16 259 60</u>	<u>(38 626 50)</u>	<u>(22 366 90)</u>
Net cash provided (used) for noncapital and related financing activities	<u>16 259 60</u>	<u>(38 626 50)</u>	<u>(22 366 90)</u>
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(21 930 00)	-	(21 930 00)
Payments of principal on long-term debt	-	(22 000 00)	(22 000 00)
Payments of interest on long-term debt	<u>-</u>	<u>(66 202 50)</u>	<u>(66 202 50)</u>
Net cash provided (used) for capital and related financing activities	<u>(21 930 00)</u>	<u>(88 202 50)</u>	<u>(110 132 50)</u>
Cash flows from investing activities:			
Interest income	<u>860 53</u>	<u>1 118 89</u>	<u>1 979 42</u>
Net cash provided (used) for investing activities	<u>860 53</u>	<u>1 118 89</u>	<u>1 979 42</u>
Net increase (decrease) in cash and cash equivalents	2 409 72	(39 483 43)	(37 073 71)
Cash and cash equivalents, March 1	<u>40 027 00</u>	<u>201 660 66</u>	<u>241 687 66</u>
Cash and Cash Equivalents, February 29	<u><u>42 436 72</u></u>	<u><u>162 177 23</u></u>	<u><u>204 613 95</u></u>

VILLAGE OF TEKONSHA
Calhoun County, Michigan

COMBINING STATEMENT OF CASH FLOWS – ALL ENTERPRISE FUNDS EXHIBIT J
Year Ended February 29, 2004 Page 2

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) for operating activities:			
Operating income (loss)	(55 737 23)	24 120 32	(31 616 91)
Depreciation	62 360 39	75 866 34	138 226 73
Increase (decrease) in assets and liabilities:			
Accounts receivable	143 02	4 311 53	4 454 55
Accounts payable	<u>453 41</u>	<u>(18 071 51)</u>	<u>(17 618 10)</u>
Net Cash Provided (Used) for Operating Activities	<u>7 219 59</u>	<u>86 226 68</u>	<u>93 446 27</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

EXHIBIT K
Page 1

March 25, 2004

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

We have audited the financial statements of Village of Tekonsha, Calhoun County, Michigan, as of and for the year ended February 29, 2004, and have issued our report thereon dated March 25, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Village of Tekonsha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Tekonsha's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of

To the Village Council
Village of Tekonsha
Calhoun County, Michigan
March 25, 2004

EXHIBIT K
Page 2

performing their assigned functions. We noted an inadequate control over cash transactions caused by an inherent lack of segregation of duties which is due to the limited number of office personnel employed involving the internal control over financial reporting and its operations that we consider to be a material weakness.

This report is intended for the information of management and other regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

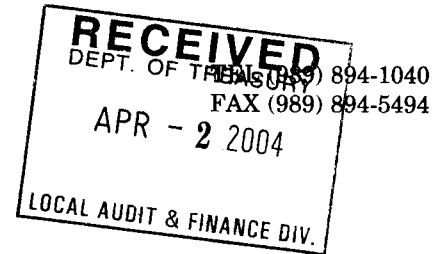
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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

March 25, 2004

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

We have audited the financial statements of the Village of Tekonsha, for the year ended February 29, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Tekonsha in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Village Council
Village of Tekonsha
Calhoun County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Village of Tekonsha will begin with the year ended February 29, 2004, and will need to be implemented fully by February 28, 2005. The daily operations and recording transactions should not change significantly, however, the Village will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated February 29, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants